

STATE OF MAINE
PUBLIC UTILITIES COMMISSION

Docket No. 2000-731

October 19, 2000

EASTERN MAINE ELECTRIC COOPERATIVE, INC.
Application for Approval of Issuance
of Securities (§902) (\$3,000,000)

ORDER APPROVING
ISSUE OF SECURITIES

WELCH, Chairman; NUGENT and DIAMOND, Commissioners

I. SUMMARY

On August 29, 2000, Eastern Maine Electric Cooperative (EMEC or the Company) filed with the Commission an application for approval to enter into a revolving loan agreement with the National Rural Utilities Cooperative Finance Corporation (CFC). EMEC will be renewing an unsecured line of credit of \$3,000,000 from CFC for four (4) years at CFC's variable line of credit offering rate. This Order approves EMEC's request.

II. BACKGROUND & DECISION

Obtaining this line of credit is one component of EMEC's three-part plan to improve its cash flow over the next four years. Improved cash flow will enable EMEC to maintain its distribution system and meet its operating expenses while minimizing rate impacts on customers. The other two components of EMEC's plan include a four-year unsecured term loan for \$1.05 million from CFC (approved on October 16, 2000 in Docket No. 2000-730) and a \$400,000 base rate increase approved in Docket No. 2000-491. EMEC's petition states that the three pieces of its plan are completely integrated and that if one piece changes, the other two pieces must also be changed. The Company stated that in the absence of the proposed financings, the base rate increase component of the plan would have risen from \$400,000 to "at least \$750,000" and therefore its customers will benefit by roughly \$350,000 with our approval.

EMEC can utilize the revolving loan proceeds, at its discretion, to fund either operating or capital expenditure requirements over the term of the agreement. The interest rate will be CFC's variable line of credit rate, recently 8.30%, subject to a floating rate cap defined as the "Wall Street Journal Prime Rate" plus 1.0% (a cap which today would be 10.50%). Since January 1996, CFC's variable line of credit rate has ranged from a low of 5.90% to a high of 8.30%, attained during September 2000. While the Commission has generally preferred fixed-rate financing to variable-rate financing, we are aware that variable-rate offerings are standard in most revolving credit agreements. We understand that EMEC has typically monitored its variable-rate loan obligations closely, and that it will continue to do so in the future. We remind the Company that it should take whatever steps are necessary to minimize its future interest costs.

The Agreement that EMEC signed with CFC in conjunction with its proposed borrowing arrangement identifies the debt instrument as a "Perpetual Line of Credit." Our review indicates that the agreement contains no final maturity date, but rather the agreement is automatically renewed on an annual basis, unless either EMEC or CFC gives 90-day written

notice of its intent to terminate the agreement. Section 901 of 35-A M.R.S.A. requires, among other things, that borrowing arrangements extending beyond twelve months receive written authorization by the Commission. The Perpetual Line of Credit for which the Company seeks approval clearly extends beyond one year and, thus, is subject to the approval requirements of §901 and §902. The Company has requested that the Commission approve the borrowing arrangement through December 31, 2004, and our approval will terminate on that date.

Pursuant to an Amended Delegation Order dated January 9, 1996, in Docket No. 94-401, the Commission delegated to the Director of Finance pursuant to 35-A M.R.S.A. § 107 (4), the authority to grant the Approval of Stocks, Bonds and Notes by the Public Utilities Commission, Chapter 9, 35-A M.R.S.A., in those circumstances that involved the approval of Maine Municipal Bond Bank (MMBB), Rural Utilities Service (RUS), National Rural Utilities Cooperative Finance Corporation (CFC), Rural Telephone Bank (RTB) and CoBank, ACB (CoBank) financing applications by telecommunication and electric utilities. The approval of the Director of Finance shall be in the form of an Order, copies of which shall be maintained in the files of the office of the Administrative Director.

Having reviewed the application of the Company, together with data provided in support of it, it is the opinion of the Commission that the proceeds of the issuance of the securities are required in good faith for the purposes enumerated in 35-A M.R.S.A. § 901. In approving this securities issue, consistent with normal practice and pursuant to 35-A M.R.S.A. § 902(4), the Commission does not imply approval of the Company's capital needs, capital costs or capitalization ratio for rate making purposes, nor does this Order limit or restrict the powers of the Commission in determining or fixing any rate.

Accordingly, pursuant to the Amended Delegation Order dated January 9, 1996, in Docket No. 94-401, it is:

O R D E R E D

1. That Eastern Maine Electric Cooperative, Inc. (EMEC) is authorized to enter into an unsecured revolving line of credit agreement with the National Rural Utilities Cooperative Finance Corporation (CFC), as set forth in its application, in a sum not to exceed \$3,000,000 at the prevailing variable CFC line of credit rate.
2. The approval granted in this Order shall expire on December 31, 2004.
3. That EMEC report to the Director of Finance, in writing its doings pursuant to this Order within 60 days of the date of closing of the loan
4. That a copy of this Order be mailed to interested parties and this Docket be closed.

Dated at Augusta, Maine, this 19th
day of October, 2000.

BY ORDER OF THE ACTING DIRECTOR OF FINANCE

Richard M. Kania
Acting Director of Finance

NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.
2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within 30 days of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Civil Procedure, Rule 73, et seq.
3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

Note: The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.